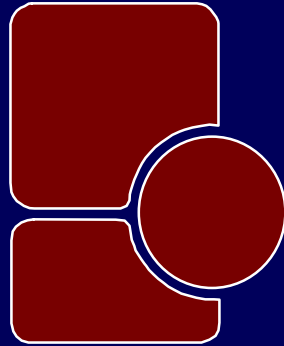


**Joint Legislative Audit and Review Commission  
of the Virginia General Assembly**



**Final Report: Review of the Virginia  
Housing Development Authority**

**JLARC Staff Briefing  
June 12, 2000**

# Introduction

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2

## Staff for this study:

**Glen Tittermary, Division Chief**

**Hal Greer, Project Leader**

**Eric Messick**

**Suzanne Pritzker**

**Jason Powell**

**Kelly Gobble**

# Presentation Outline

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3

## ☒ Introduction and Summary of Findings

☐ Background

☐ The Section 8 Program

☐ The Multifamily Loan Program

☐ The Single Family Loan Program

☐ VHDA's Management and Mission

# Study Mandate

4

- **HJR 731, approved by the 1999 General Assembly, directed JLARC staff to evaluate whether VHDA is addressing the housing needs of low and moderate income Virginians and is administering its programs in accordance with statutory intent, including:**
  - **VHDA's administration of the federal Section 8 program in Virginia**
  - **The performance, operation, management, and organization of the authority**

# Study Issues

5

- Does VHDA adequately administer the Section 8 program?
- Do VHDA's single and multifamily programs fulfill VHDA's statutory mission to provide affordable housing to low and moderate income households?
- Does VHDA maximize the use of the Virginia Housing Fund to meet the housing needs of low and very low income Virginians?
- Is VHDA appropriately organized, staffed, and managed to fulfill its statutory responsibilities?

# Research Activities

## ■ Structured interviews with:

- All seven appointed members of the VHDA Board of Commissioners
- Twenty-eight VHDA staff members, including the executive director, the deputy executive director, and the directors of each of VHDA's programmatic divisions
- Staff of for-profit and non-profit development companies, local housing authorities, Section 8 administrative agents, and six single family regional loan fund administrators
- Community development officers at four banks and seven mortgage lenders that operate in Virginia
- Department of Housing and Community Development staff, including the executive director, and U.S. Department of Housing and Urban Development staff

# **Research Activities**

## **(continued)**

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7

- **Mail surveys of all Section 8 local administrative agents in Virginia**
- **E-mail and telephone survey of other states' housing finance agencies and a more focused telephone survey of single family programs in 16 states**
- **Telephone survey of four other state Section 8 programs**
- **Salary survey of other State independent agencies**

# **Research Activities**

## **(continued)**

8

### **■ Document review and data analysis**

- Review of Fannie Mae and Freddie Mac underwriting standards**
- Review of studies detailing housing needs in Virginia**
- Review of correspondence between VHDA, HUD, and local Section 8 administrative agents**
- Review of Section 8 budget data for the last five fiscal years**
- Analysis of project and tenant data for multifamily projects**
- Analysis of single family loans provided by VHDA since 1995**
- Analysis of VHDA salary data**



# **Research Activities**

## **(continued)**

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9

- **Attendance at seven monthly Board of Commissioners meetings, VHDA meetings pertaining to specific research issues, and two conferences addressing housing issues in Virginia**
- **Financial analysis of the Virginia Housing Fund with the assistance of the accounting firm of Reznick, Fedder & Silverman**

# Summary of Staff Findings

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10

- **VHDA has a strong financial reputation nationally and receives impressive ratings from the bond rating agencies**
- **VHDA has a professional and competent staff, and its housing finance programs are generally well managed**
- **VHDA has helped to provide safe and decent affordable housing to many Virginia families through administration of the Section 8 and tax credit programs and financing provided for multifamily and single family housing**

# Summary of Staff Findings

## (continued)

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11

- **VHDA has not utilized some federal funds allocated to Virginia for the Section 8 program, and several aspects of the Section 8 program have not been adequately managed**
- **Multifamily housing financed by VHDA is not affordable to the majority of tenants, and the approval process for the allocation of financing for multifamily properties could better address the housing needs of different regions of the State**

# Summary of Staff Findings

## (continued)

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12

- VHDA's single family loan program appears to serve some households that otherwise could be served by the private market and could do more to assist low income households with mortgage loans
- VHDA has financial strength that should result in increased allocations to the Virginia Housing Fund, a fund that provides loans to house low and very low income persons
- VHDA needs to do more to meet its public mission and should be more accountable to the General Assembly

# Presentation Outline

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13

☐ Introduction and Summary of Findings

☒ Background

☐ The Section 8 Program

☐ The Multifamily Loan Program

☐ The Single Family Loan Program

☐ VHDA's Management and Mission

# Statutory Mission

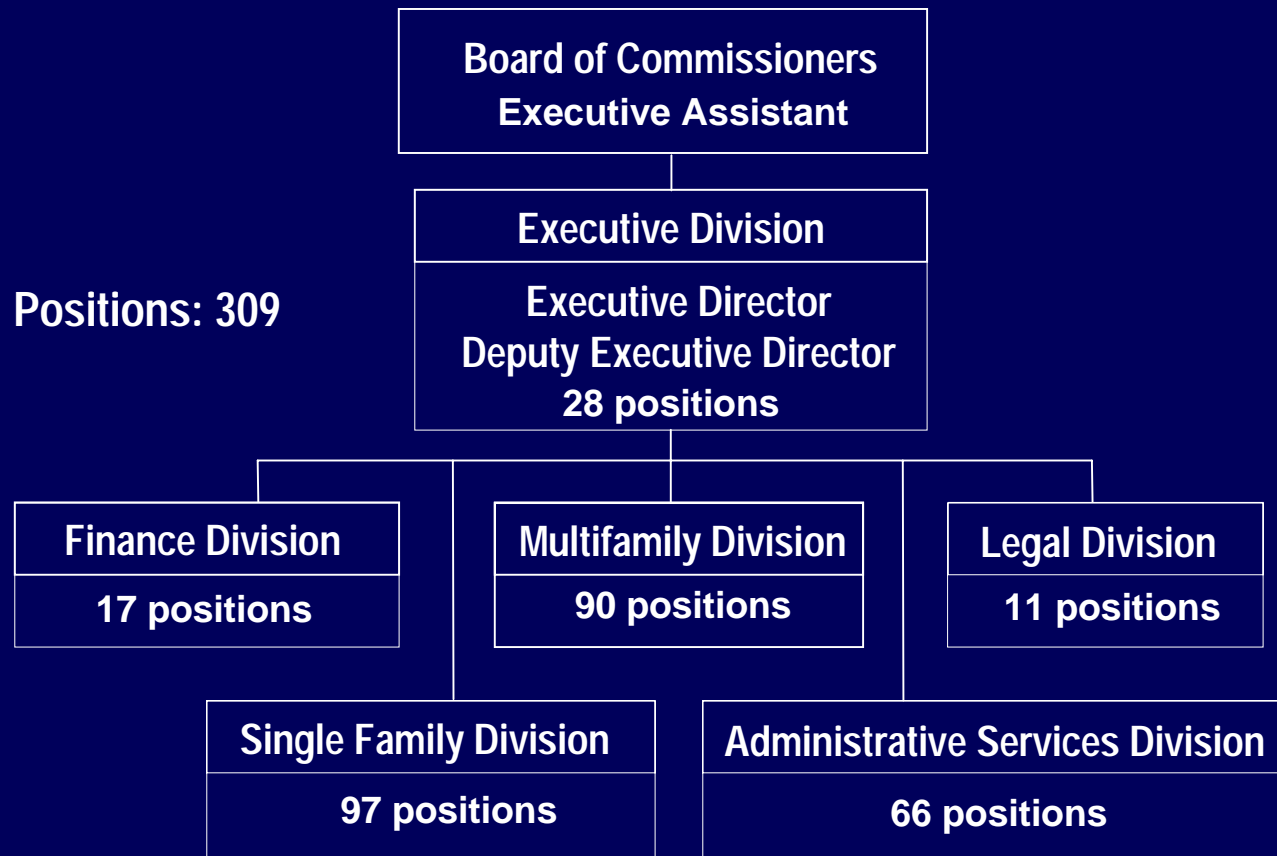
14

- VHDA was established by the General Assembly in 1972 as the State's housing finance agency
- Section 36-55.25 of the *Code of Virginia* states that VHDA was created to encourage investment of private capital, stimulate the construction and rehabilitation of residential housing, and provide construction and mortgage loans, in order to provide an adequate supply of sanitary and safe affordable housing for low and moderate income households
- VHDA operates as an independent authority and does not receive State general funds

# Organizational Structure

15

Total Positions: 309



# VHDA Financing

16

- VHDA finances housing programs primarily from the issuance of three types of bonds: (1) tax-exempt, (2) taxable, and (3) refunding
- VHDA generates most of its revenue by making mortgage loans from the proceeds of bond sales at a higher interest rate than the yield it pays investors
- VHDA receives no State or federal appropriations, except for federal funds for administration of the Section 8 program



# **VHDA Financing**

## **(continued)**

17

- **VHDA receives high bond issuer ratings by Standard & Poor's and Moody's Investors Service**
- **The authority's current bond resolutions also receive high ratings by Standard & Poor's and Moody's**
- **In the past, many of the bond issues were secured by the State's moral obligation pledge, but VHDA no longer secures bond issues with the State's pledge**

# VHDA Programs

18

- **VHDA provides loans to first-time home buyers through its single family loan program**
- **VHDA provides financing for multifamily projects and administers the federal low income tax credit program through its multifamily program**
- **VHDA provides financing to serve lower income families not served by other programs through the Virginia Housing Fund**
- **VHDA administers a substantial portion of the federal Section 8 assistance provided to the State**

# VHDA Mandated to Serve Low and Moderate Income Households

19

## Categories of Income Generally Used by HUD

<u>Income Level</u>	<u>Percent of Area Median Income</u>	<u>Range for Family of Four in Richmond</u>
Moderate	81-115%	\$47,610 - \$68,430
Low	51-80%	\$29,760 - \$47,600
Very Low	31-50%	\$17,860 - \$29,750
Poverty	30% or below	\$0 - \$17,850

# Virginia Households Face Significant Housing Problems

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20

- 1999 study by the National Low Income Housing Coalition found Virginia had the highest percentage of renters (53 percent) that were unable to afford the fair market rent for a 2-bedroom apartment
- Between one-fifth and one-third of the households in each planning district do not live in housing that is safe, decent, and affordable, based on Virginia Center for Housing Research data
- Housing needs vary greatly among different regions of the State

# Housing Problems by District

21

<u>District</u>	<u>Percentage of Households</u>
Hampton Roads	33.5%
Northern Virginia	32.7
Accomack-Northampton	32.0
RADCO	27.9
Thomas Jefferson	27.7
Southside	27.6
New River Valley	27.5
Northern Neck	27.1
Piedmont	27.0
Rappahanock-Rapidan	26.8
Crater	26.8

# Presentation Outline

22

- ☐ Introduction and Summary of Findings
- ☐ Background
- ☒ **The Section 8 Program**
- ☐ The Multifamily Loan Program
- ☐ The Single Family Loan Program
- ☐ VHDA's Management and Mission

# Section 8 Background

23

- Section 8 program provides federal rental assistance to reduce the rent burden for very low income and poverty level households
- Section 8 assistance is provided through both project-based and tenant-based programs
  - Approximately 13,000 project-based Section 8 rental units are administered through VHDA, and owners of these units received approximately \$77 million in subsidy payments in FY 1999
  - VHDA receives approximately \$65 million annually in tenant-based Section 8 funds, which it allocates to 89 localities around the State to provide subsidies for approximately 11,900 families

# **Section 8 Background**

## **(continued)**

24

- **Tenant-based rental assistance is provided in the form of certificates and vouchers, under which tenants are required to pay 30 percent of their incomes in rent, and the subsidy covers the difference between the tenant's contribution and the fair market rent for the unit**
- **VHDA's administration of the statewide Section 8 program has provided a valuable service to many localities that might not otherwise have the capacity to operate a Section 8 program**



# Section 8 Program Structure

25

- **VHDA administers the program through three separate contracts with HUD**
- **VHDA contracts with 75 local administrative agents that carry out the day-to-day administration of the program in 89 Virginia localities. These local agents consist of: local social services departments, housing authorities, and non-profits**
- **Program size varies from as few as 19 to more than 1,400 families served**

# Shortage of Section 8 Units

26

- **JLARC staff survey of 75 VHDA local administrative agents found a substantial unmet need for Section 8 rental assistance:**
  - **At least 16,371 families were on VHDA Section 8 waiting lists as of December 31, 1999**
  - **Waiting lists of individual local agents range from 10 to 1,100, depending on local eligibility requirements**
  - **Families must wait from three months to seven years for a VHDA assisted unit**
- **Shortage of Section 8 units has been exacerbated by the current leasing moratorium, so no new families have been served since July 1, 1999**

# Section 8 Funding Management

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27

- Prior to 1995, HUD provided funding to state and local Section 8 programs on a per-unit basis. This historically resulted in excess funding and the accumulation of project reserves
- For many years, unused funds were allowed to accumulate in housing authority reserve accounts, but in 1997 Congress began to direct the recapture of these reserves

# VHDA Ignored Program Directive

28

- In July 1995, HUD issued a policy directive requiring housing authorities to manage Section 8 budgets based on annual budget authority (available fund dollars) instead of on a per-unit basis
- VHDA chose not to comply with the HUD directive and continued to manage its Section 8 budget on a per-unit basis until FY 1999

# VHDA Unused Annual Budget Authority

29

## Unused Annual Budget Authority (In millions of dollars)

<u>Fiscal Year</u>	<u>Annual Budget Authority</u>	<u>Amount Used</u>	<u>Amount Unused</u>	<u>Percent Unused</u>
1996	\$50.8	\$39.2	\$11.6	23%
1997	46.9	41.4	5.5	12
1998	58.1	45.6	12.5	22
1999	61.5	54.3	7.2	12

# **VHDA Unused Annual Budget Authority (continued)**

30

- **Section 8 expert retained by VHDA in 1998 concluded the following:**
  - **The authority could have funded an additional 2,445 housing units had it complied with the HUD directive to manage the Section 8 budget based on the available budget authority for that year**
  - **“VHDA clearly could have provided more assistance to needy families” in FY 1998**
  - **Other states with comparable programs utilized more of their funds**
- **When VHDA began managing by budget authority instead of by unit in FY 1999, the authority was able to provide assistance for 1,800 more units than in the previous year**

# Recommendation

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31

- **The Virginia Housing Development Authority should implement management policies to ensure that all federal Section 8 funds allocated to the authority are utilized to the maximum extent reasonably practicable.**

# **Administrative Fees Are Not Allocated Equitably**

32

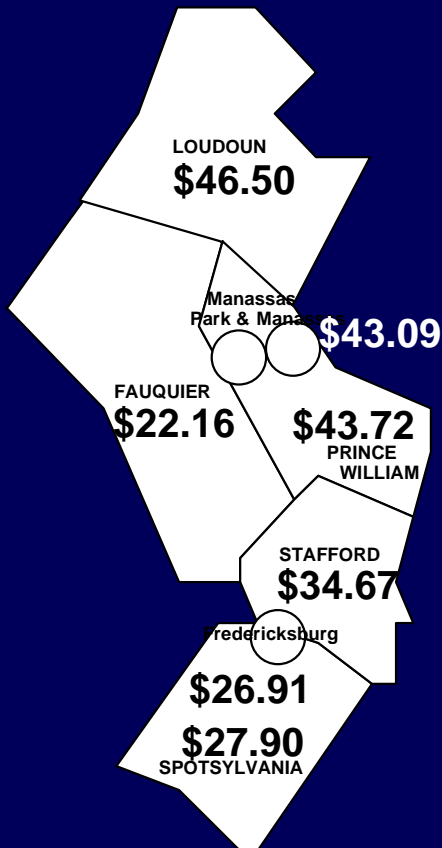
- **VHDA receives administrative fees from HUD based on the total number of units assisted and the fair market rent in each locality**
- **VHDA allocates approximately two-thirds of the administrative fees to the local agents administering the Section 8 program**
- **Currently, there is no formal process for determining the percentage of the administrative fees paid to each locality**



# Administrative Fees Are Not Allocated Equitably

33

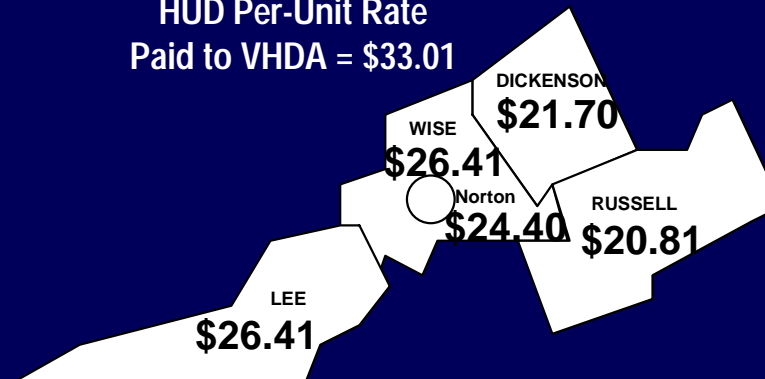
HUD Per-Unit Rate  
Paid to VHDA = \$62.73



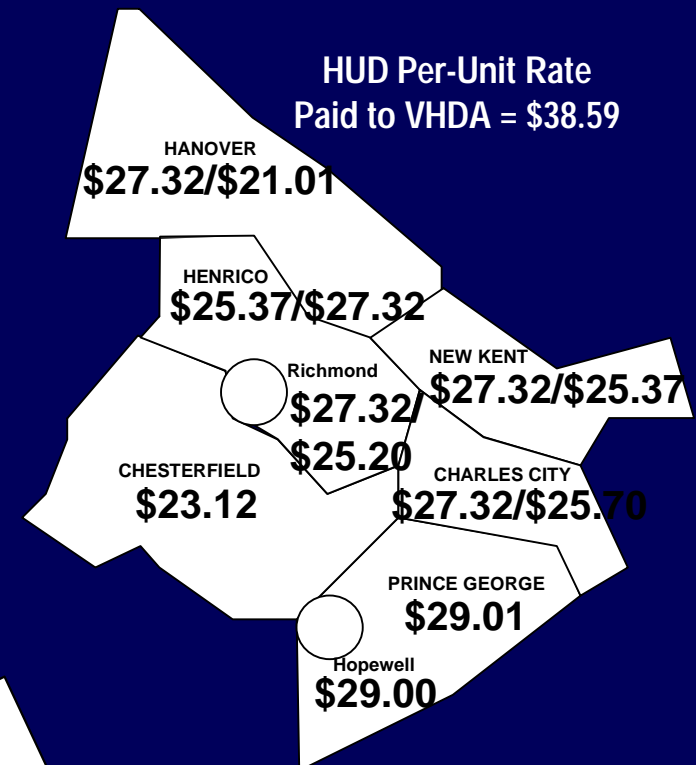
HUD Per-Unit Rate  
Paid to VHDA = \$33.01



HUD Per-Unit Rate  
Paid to VHDA = \$33.01



HUD Per-Unit Rate  
Paid to VHDA = \$38.59



# Recommendation

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34

- **VHDA should discontinue its current process of verbal negotiation in determining the allocation of Section 8 administrative fees to local administrative agents and should implement a formal policy that will ensure a fair and equitable distribution of these fees.**

# **VHDA Has Not Effectively Automated Data Transmittal**

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35

- **VHDA does not have an automated system for the transmission of tenant occupancy data from local agents**
- **Current process requires local agents to submit the data in hard copy form and requires five VHDA employees to input the data**
- **New York state, which has 52 local agents, has had an automated data transmittal system for ten years**

# **Payment Disbursal System Is Inadequate**

36

- **Until the fall of 1999, VHDA contracted with a third party vendor to make rent and utility allowance payments. This contractor was not year 2000 compliant, and VHDA brought the check-writing function in-house**
- **Conversion to the in-house payment disbursement system has resulted in significant problems, including overpayments and underpayments, late checks, and checks sent to incorrect addresses**
- **Based on an actuarial analysis, there may be as many as 4,000 cases in which there have been overpayments since October 1999**

# **Payment Disbursal System Is Inadequate (continued)**

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37

- **VHDA has received thousands of complaints about payment problems**
- **Forty-one percent of the respondents to JLARC survey of local agents rated the accuracy of landlord and tenant payments as “poor” or “very poor”**

# VHDA Needs to Improve Efficiency

38

- A majority of local agents reported operating deficits for FY 1999 ranging from \$1,000 to \$50,000
  - The total reported deficit for local agents in FY 1997 was \$472,131
  - The total reported deficit for local agents in FY 1999 was \$719,430
- VHDA, which administers approximately 12,000 units, has 25 full-time positions and allocates 66 percent of the administrative fees to local agents
- State of New York, which administers 23,000 units through 52 local agents, has only 16 full-time equivalent positions and allocates 90 percent of the administrative fees to local agents

# Recommendations

39

- **Recommendations to improve the efficiency and administration of the Section 8 program include:**
  - **Development of a Section 8 automated data transmittal system**
  - **Development of an effective Section 8 payment disbursement system**
  - **Taking measures to improve efficiency and reduce excessive expenditures in order to allocate more fees to local administrative agents**

# Presentation Outline

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40

- ☐ Introduction and Summary of Findings
- ☐ Background
- ☐ The Section 8 Program
- ☒ **The Multifamily Loan Program**
- ☐ The Single Family Loan Program
- ☐ VHDA's Management and Mission



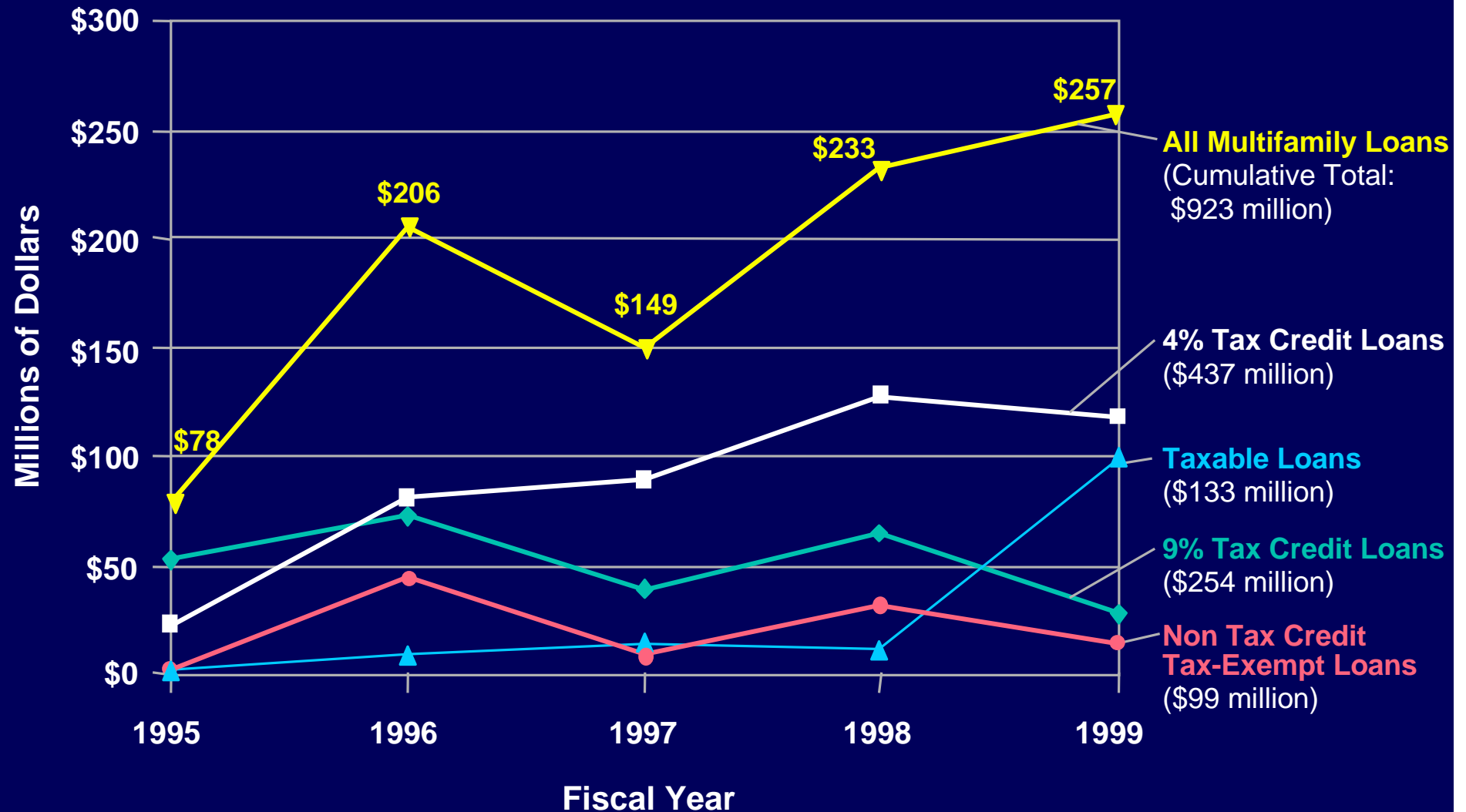
# Multifamily Loan Program

41

- **VHDA's multifamily program provides three major types of financial support to for-profit and non-profit developers to build and rehabilitate multifamily housing for low and moderate income families:**
  - **Loans from tax-exempt bond funds which may be combined with four-percent federal tax credits**
  - **Loans from taxable bond funds**
  - **Nine-percent federal tax credits**
- **Projects receiving loans from tax-exempt bond proceeds and nine-percent tax credits have specific low income tenant requirements**

# Multifamily Loan Program Amounts FY 1995 to FY 1999

42



# **VHDA Multifamily Programs Are Well-Managed**

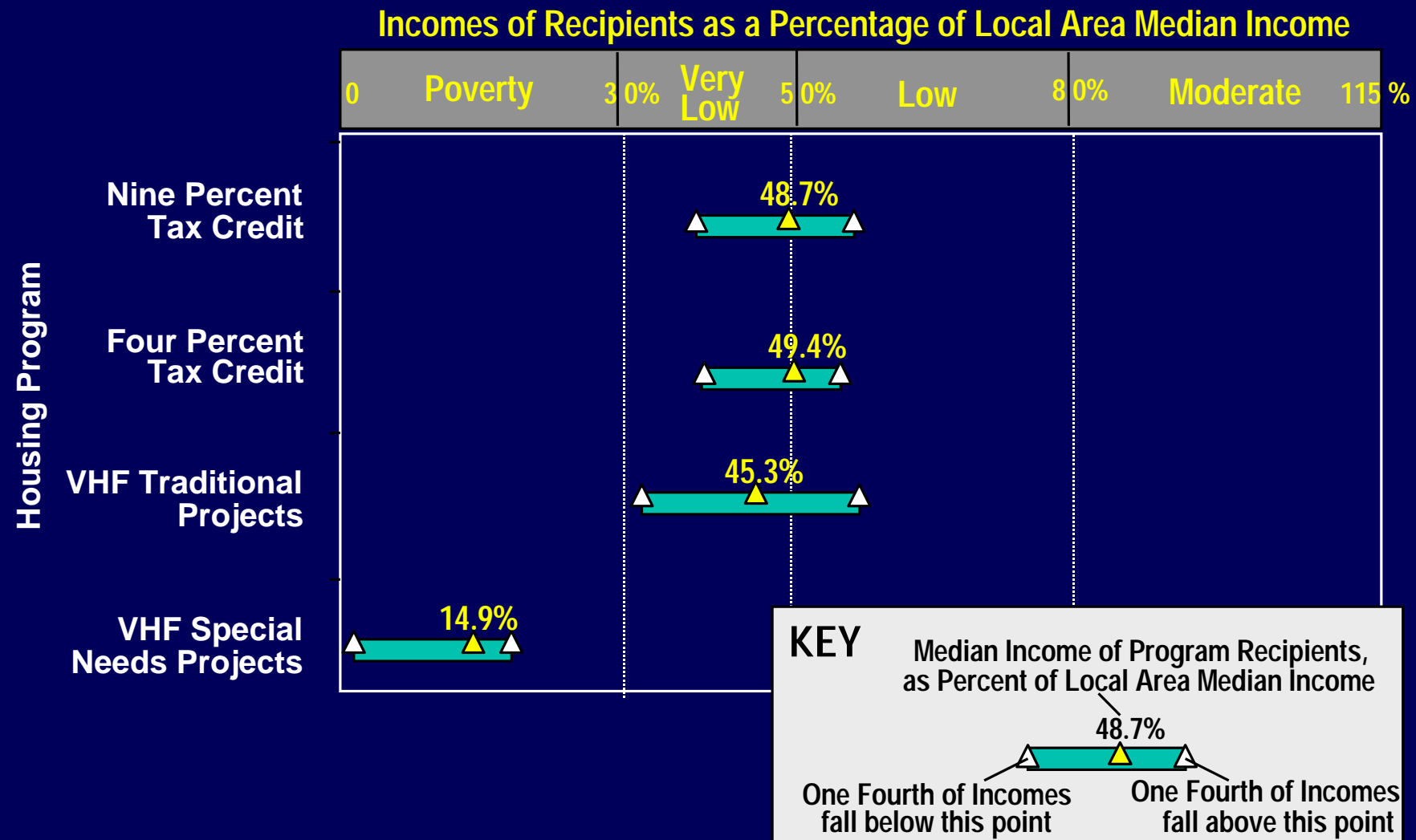
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43

- **Multifamily properties are subject to a rigorous underwriting process**
- **Multifamily asset management division monitors project success through regular inspections and compliance reviews**
- **These reviews result in stable projects:**
  - **VHDA has had to take severe financial action with only five multifamily properties**
  - **VHDA appears to be successful at maintaining the physical quality of its properties**

# Multifamily Programs Effectively Target Low and Very Low Income Households

44



# Rents Charged for VHDA-Financed Units Create Cost Burden for Some Families

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45

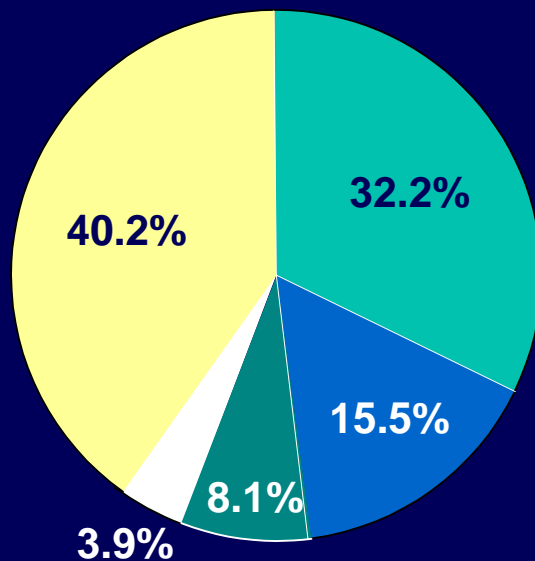
- *Code of Virginia* calls for VHDA to provide “residential housing at prices or rentals which persons and families of low and moderate income can afford.”
- The generally accepted standard for housing affordability is that housing costs, including rent or mortgage and utilities, should not exceed 30 percent of a household’s income

# Rents Charged for VHDA-Financed Units Create Cost Burden for Some Families (continued)

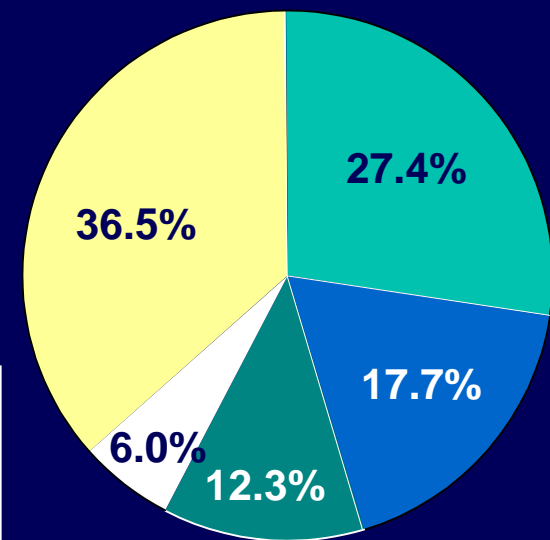
46

## Percentage of Income Paid for Rent, With \$26 Utility Allowance

By Tenants in VHDA Bond-Financed Projects



By Tenants in Virginia Housing Fund Projects



### KEY

- <30% of income
- 30% to 35% of income
- 35% to 40% of income
- 40% to 50% of income
- > 50% of income

# **VHDA Policies Do Not Encourage Affordable Rent Levels**

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47

- Rents in VHDA-supported projects are not linked to the actual incomes of tenants within the projects
- Projects with low income requirements, including those receiving federal low income tax credits, have rent ceilings, which are set at a level affordable to those households close to the maximum income limit for each project
- The remainder of VHDA loans, including Virginia Housing Fund loans, have no rent requirements

# **VHDA Policies Do Not Encourage Affordable Rent Levels (continued)**

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48

- In the past, VHDA approval was required for changes in rents for some tax-exempt bond-financed projects, however, rent increases are no longer subject to VHDA review
- No analyses are performed by VHDA as to the affordability of project rents for tenants
- VHDA does not provide incentives for developers to lower rents in VHDA-financed projects to make them affordable to more tenants



# Recommendation

49

- **VHDA should conduct a fundamental review of the processes by which rents are set for the projects it finances. In addition, VHDA should evaluate how it could provide incentives to developers to provide more affordable rents. Options that should be considered include further lowering interest rates on VHDA financing and providing additional equity to developers through second mortgages.**

# Distribution of Multifamily Loans Could Better Reflect State Housing Needs

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50

- VHDA multifamily projects are located in all regions of the State, but the distribution of these multifamily projects could better reflect the incidence of housing problems in each planning district
- Certain areas of the State receive significantly more support than other areas in addressing their housing problems, while substandard living conditions in some areas receive minimal, if any, attention from VHDA's multifamily programs

# **Need Is Not Sufficiently Considered In Award of Nine Percent Tax Credits**

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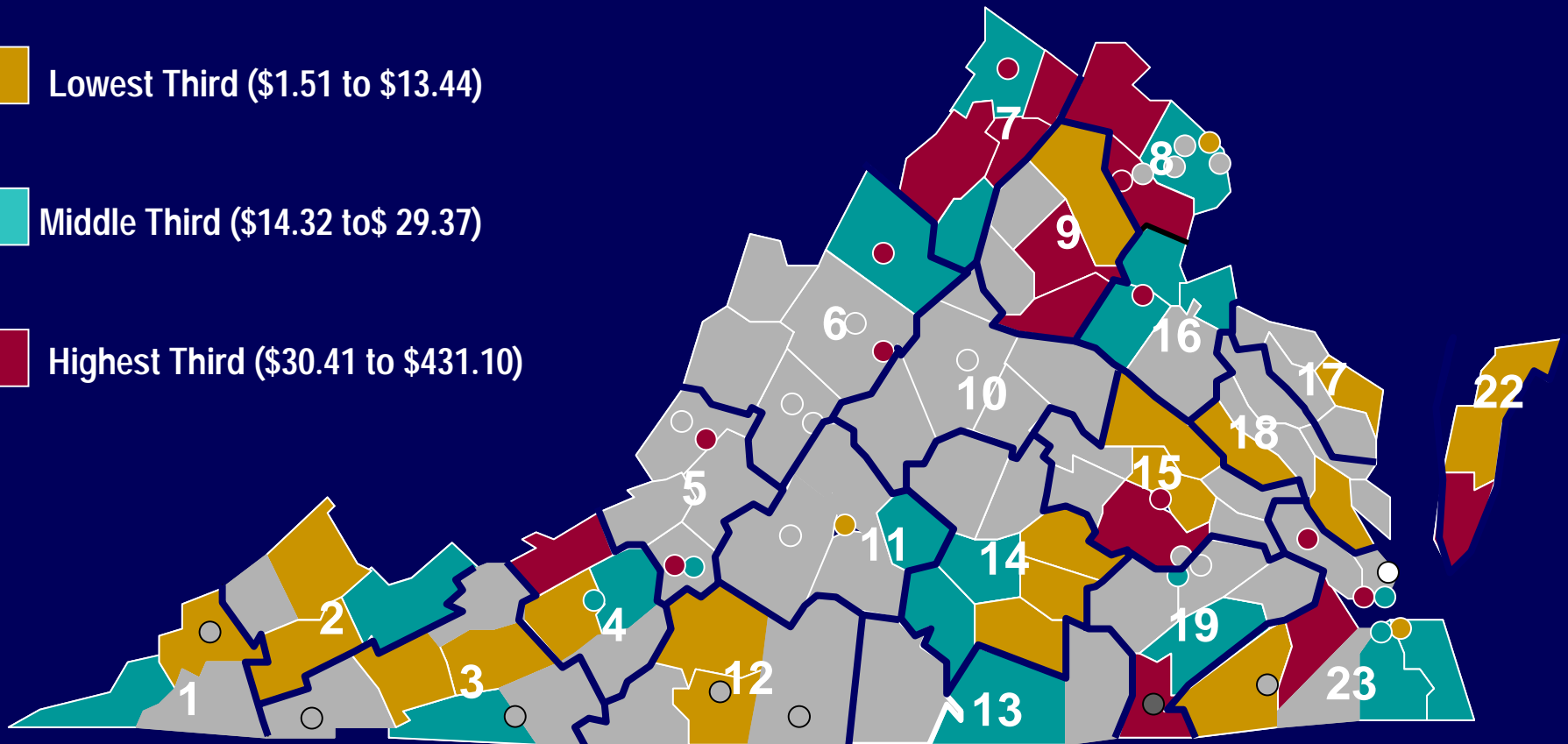
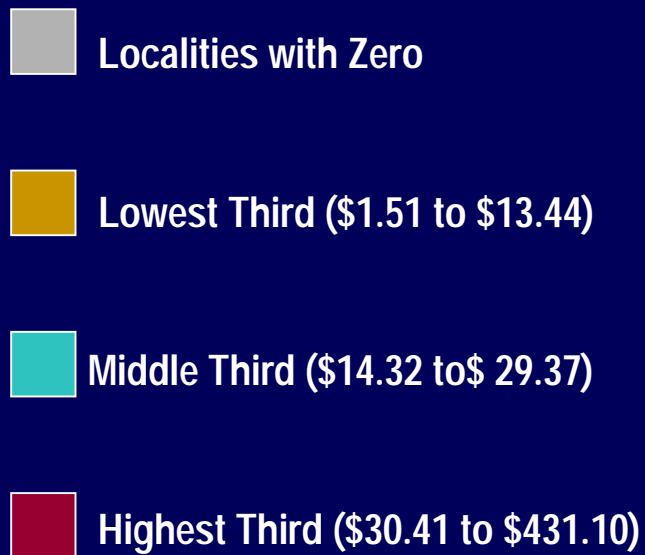
51

- **Nine percent federal low income tax credits are awarded on a competitive basis**
- **However, neither actual housing need within specific areas nor financing received through other funding sources within each geographic pool is considered**

# Need Is Not Sufficiently Considered in Award of Nine Percent Tax Credits (continued)

52

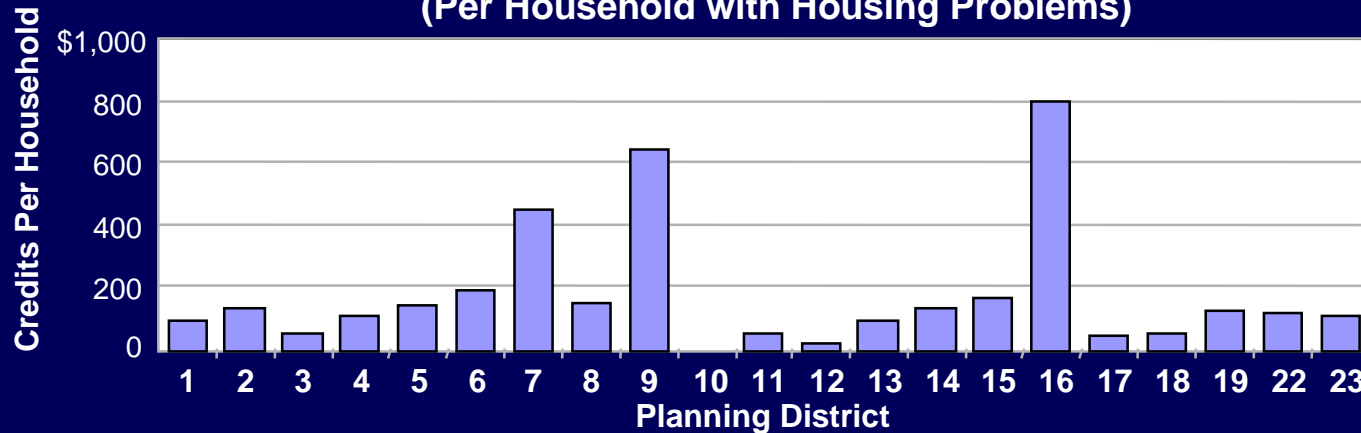
## Nine Percent Tax Credits Per Household



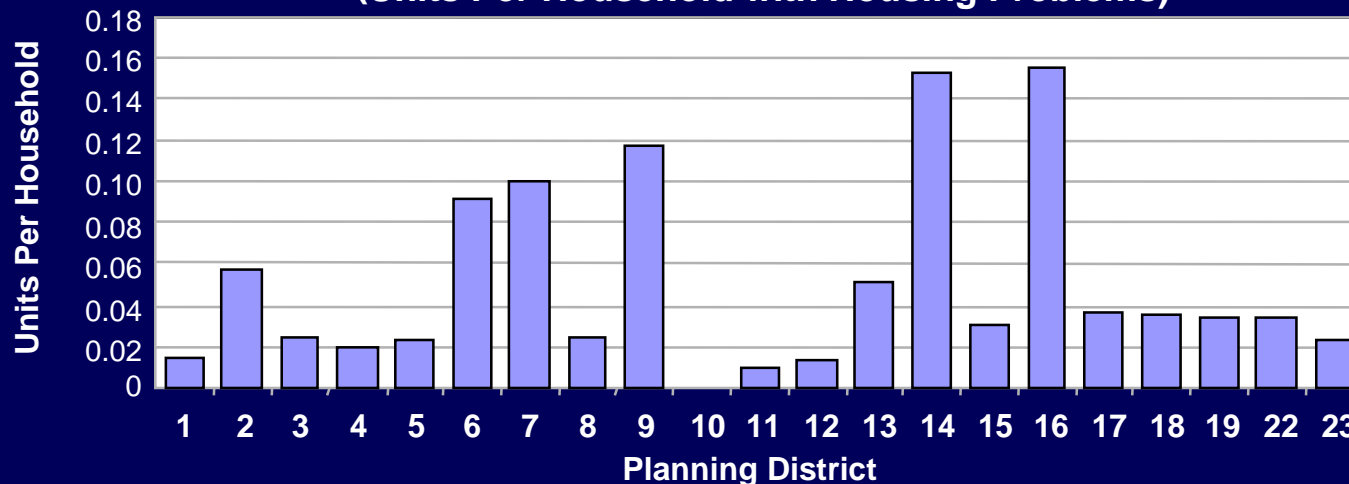
# Need Is Not Sufficiently Considered In Award of Nine Percent Tax Credits (continued)

53

**Nine Percent Tax Credits in Virginia Planning Districts**  
(Per Household with Housing Problems)



**Nine Percent Tax Credits in Virginia Planning Districts**  
(Units Per Household with Housing Problems)



# **Award of Tax-Exempt Bond Funds Does Not Consider Housing Need**

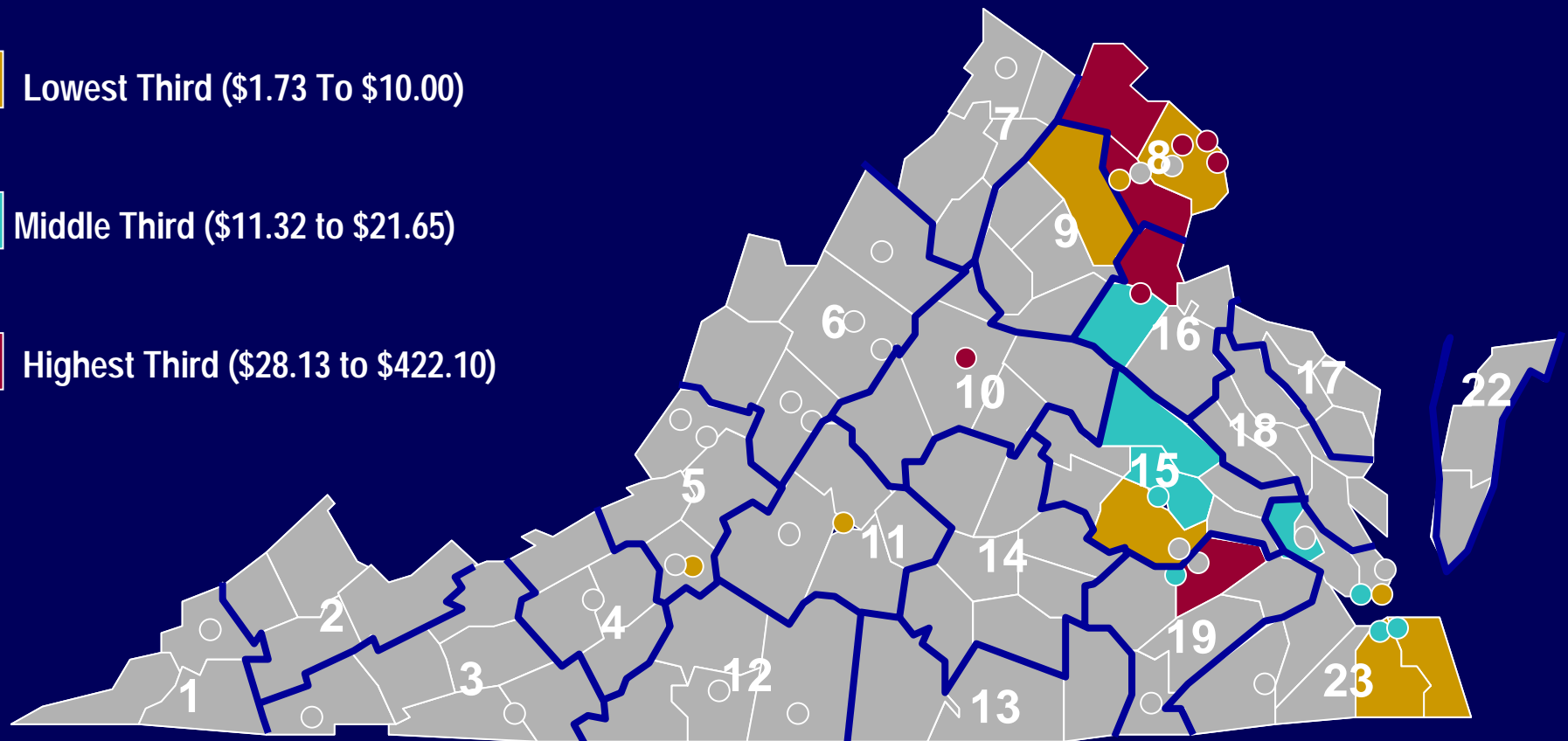
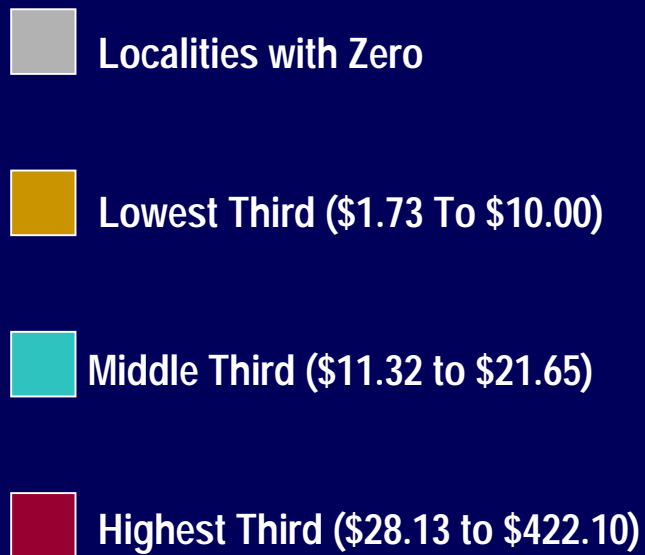
54

- Loans from the proceeds of tax-exempt bonds and the accompanying four percent tax credits are awarded on a first-come, first-served basis
- Loans are awarded regardless of where the project is located or its targeted tenants, except for any income requirements
- Projects funded with these loans are generally located in urban localities because of the higher rents feasible in these areas

# Award of Tax-Exempt Bond Funds Does Not Consider Housing Need (continued)

55

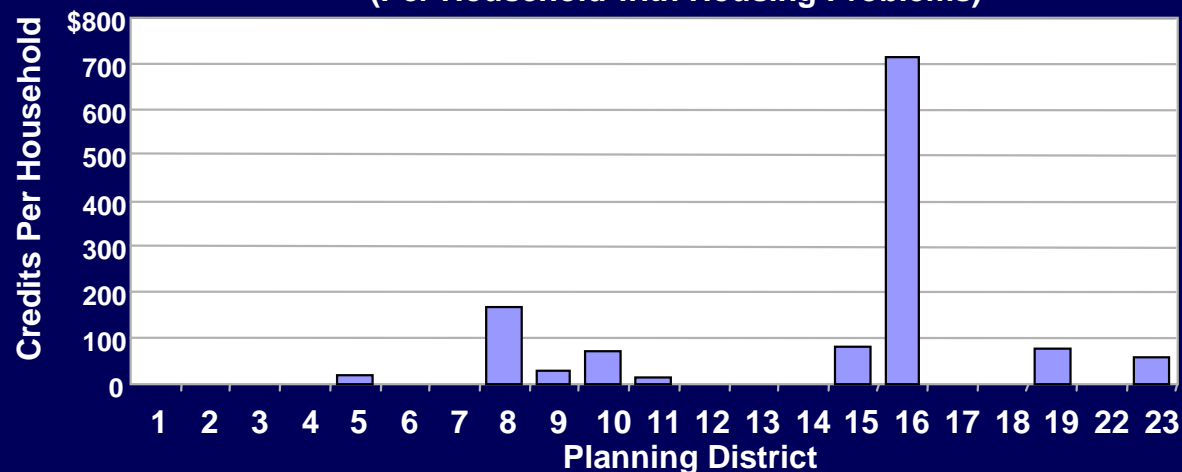
## Four Percent Tax Credits Per Household



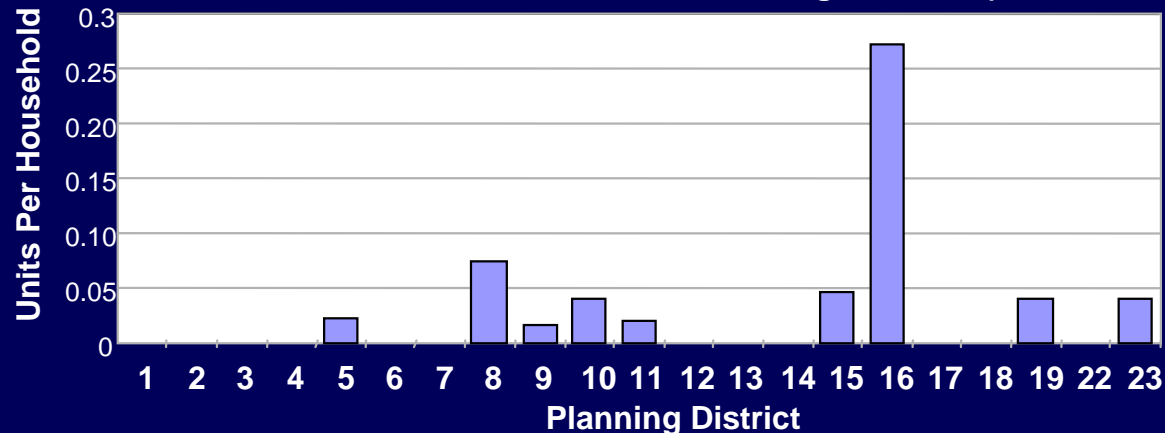
# Award of Tax-Exempt Bond Funds Does Not Consider Housing Need (continued)

56

**Four Percent Tax Credits in Virginia Planning Districts**  
(Per Household with Housing Problems)



**Four Percent Tax Credits in Virginia Planning Districts**  
(Units Per Household with Housing Problems)





# VHF Does Not Address Unmet Regional Housing Needs

57

- 13 VAC 10-120-20 states that in addition to serving the elderly, disabled, and homeless, the highest priority of the Virginia Housing Fund (VHF) should be to serve “families in need of affordable housing not otherwise being serviced by other housing programs.”
- VHDA designed three categories for its multifamily VHF loans to meet affordable housing needs not met by VHDA’s other programs:
  - Minority developers
  - Non-profit developers
  - Projects located in rural areas

# **VHF Does Not Address Unmet Regional Housing Needs (continued)**

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58

- The categories for VHF loans were not based on a comprehensive assessment of housing needs across the State
- Planning districts which receive the most VHF dollars also receive the most funding from VHDA's other multifamily programs
- In designing VHF programs, VHDA does not appear to take into account sufficiently the unmet housing needs in Virginia, particularly those that are not being served by other housing programs

# **VHDA Has Not Performed Comprehensive Needs Analysis**

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59

- The only analysis of housing needs that VHDA has performed in recent years is an analysis of population growth and how VHDA funds have been allocated relative to growth
- VHDA loans appear to be following the pattern of population growth in the State but not housing need

# **VHDA Should Proactively Design Its Programs to Meet State Housing Needs**

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60

- **As the primary State source of financing for the development of housing for households between 50 and 115 percent of median income, VHDA should participate in assessing the housing needs for these low and moderate income households**
- **VHDA needs to take a more proactive role in designing and administering programs that match housing needs of persons throughout the State**

# **VHDA Board Should Have Diverse Geographic Representation**

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61

- **There are currently no statutory requirements for geographic representation on the VHDA Board**
- **Certain areas of the State have consistently been over-represented on the VHDA Board**
- **Limiting the membership of the VHDA Board from any particular region would provide for more diverse representation, and the Board would be better equipped to direct VHDA's staff to more effectively plan, design, and administer its programs to meet the housing needs across the State**

# Recommendations

62

- **VHDA should conduct a comprehensive analysis of the housing needs in all regions of the State periodically. VHDA should use the results of this analysis to design and administer financing programs that will match the housing needs of low and moderate income persons in each region of the State.**
- **The General Assembly may wish to consider amending 36-55.288 of the *Code of Virginia* to require that the Governor appoint no more than two persons from any one area of the State to the VHDA Board of Commissioners.**

# Presentation Outline

63

- ☐ Introduction and Summary of Findings
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- ☒ **The Single Family Loan Program**
- ☐ VHDA's Management and Mission

# Single Family Loan Program

64

- The single family program is VHDA's largest program, and single family loans constitute approximately two-thirds of the total dollars financed by VHDA
- VHDA's single family loan program provides loans to low and moderate income borrowers who are primarily first-time homebuyers
- Most VHDA single family loans are originated and serviced by private lenders



# VHDA Provides Four Primary Single Family Mortgage Loan Programs

65

## ■ Standard insured loan program

- Similar to FHA, VA, RD, and conventionally insured 30-year, fixed rate mortgage loans available through the private market
- Interest rate is targeted at one-half percent less than average rate available through the secondary market

## ■ Step rate program

- Interest rate is two percent less than the 30-year, fixed market rate in first year and one percent less than the market rate in second year
- Interest rate is the same as private market 30-year, fixed rate in years 3 through 30

# **VHDA Provides Four Primary Single Family Mortgage Loan Programs (cont.)**

66

## **■ FHA Plus program**

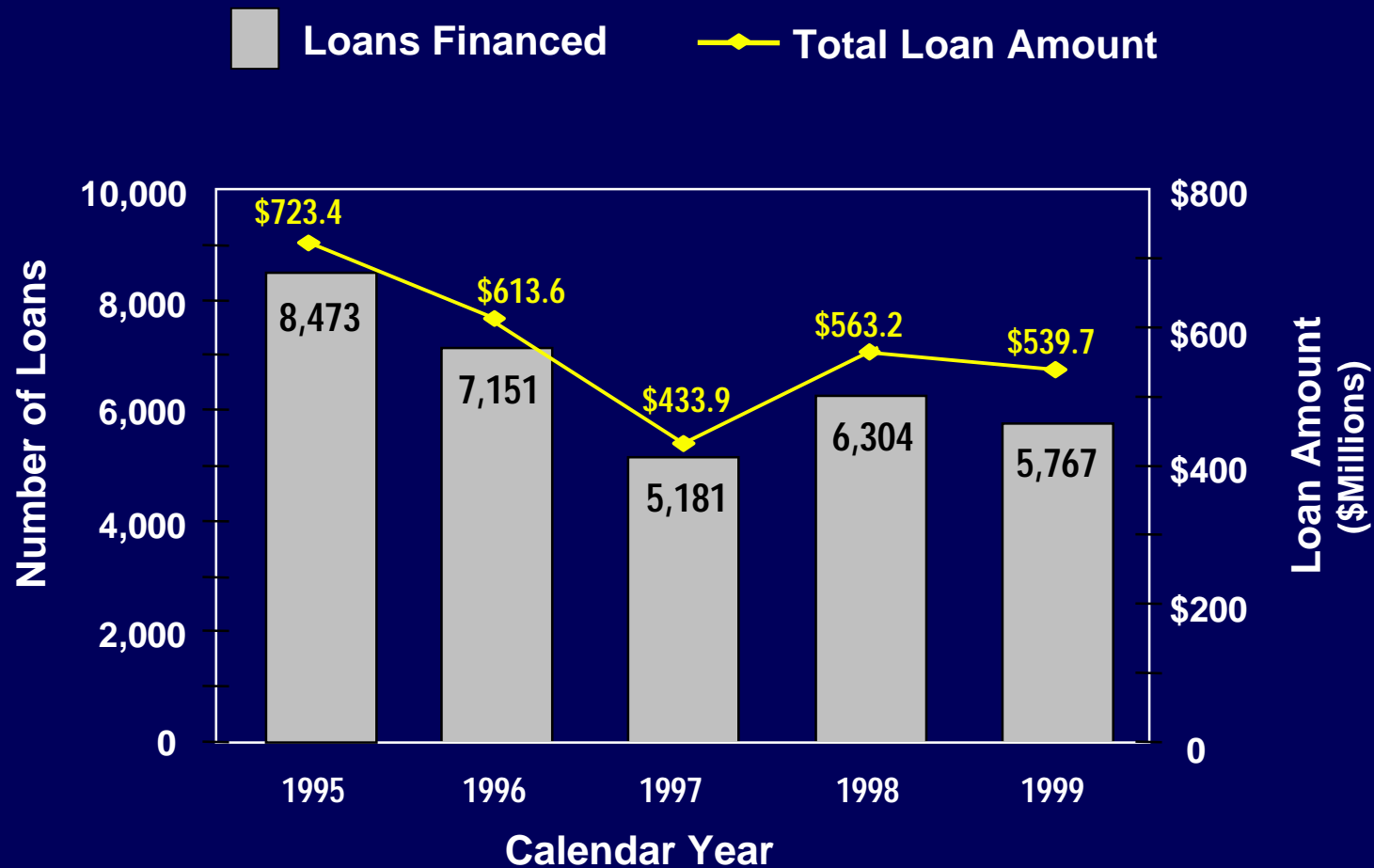
- Provides financing of downpayment and closing costs up to 103 percent of the loan value through two mortgages with second mortgage insured by VHDA
- Interest rate for both loans is the same as the market rate for the standard 30-year, fixed rate loan

## **■ Flexible Alternative program**

- Loans financed from the proceeds of taxable bond sales
- No mortgage insurance or downpayment required, higher income limits, loan limit of \$252,000
- Interest rate is one-half percent greater than market rate for the standard 30-year, fixed rate loan

# VHDA Provided Almost 33,000 Single Family Loans During 1995 - 1999

67



# Eligibility Requirements Exist for VHDA Primary Single Family Loans

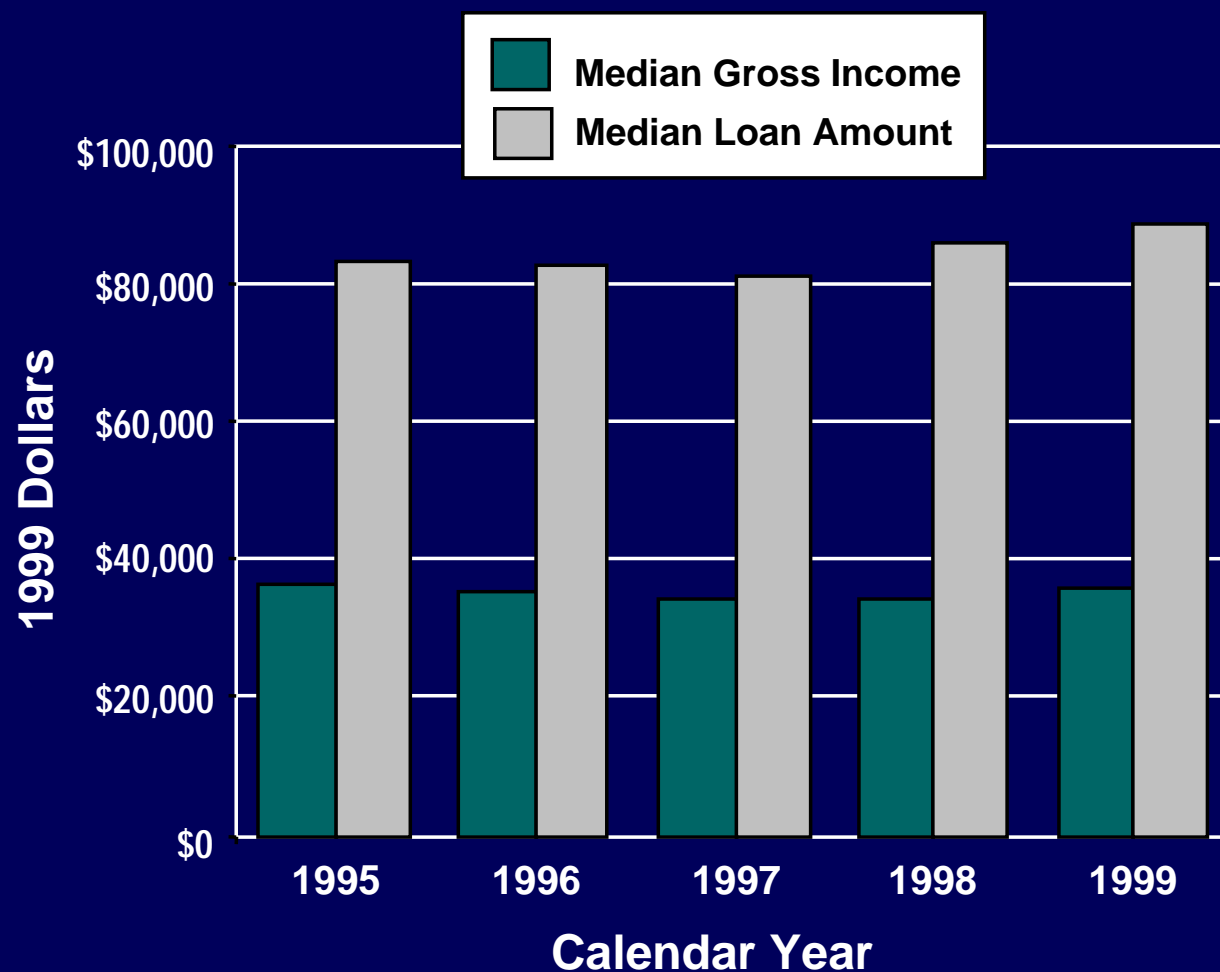
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68

- Based on federal requirements, VHDA has established income, sales price, and loan limits for its tax-exempt bond loan products
- Qualifying ratios are dependent on the type of mortgage insurance
  - For FHA loans monthly housing expense-to-income ratio is generally 29 percent and the total debt-to-income ratio is generally 41 percent
- Credit score is another major factor in determining eligibility

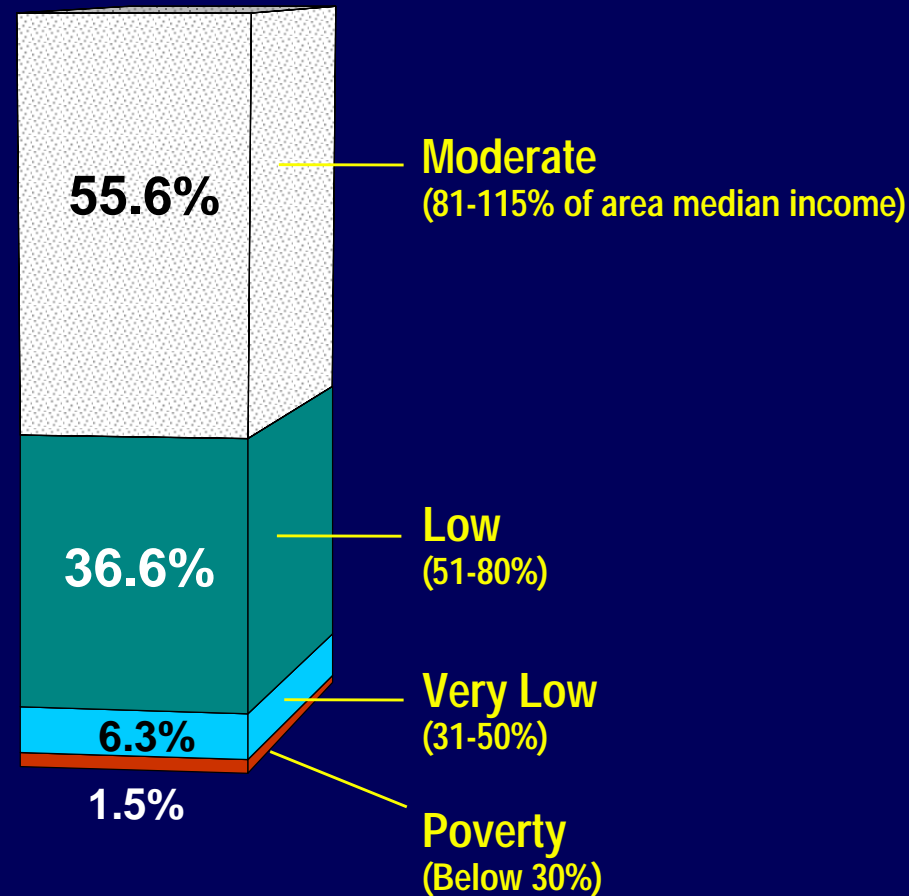
# Median Gross Income and Loan Amounts

69



# Majority of Single Family Loans Provided to Moderate Income Households 1995 - 1999

70



Total number of loans = 32,876

# Other Single Family Loan Activities

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71

- **Virginia Housing Fund has provided about \$143 million in financing for several single family loan programs**
  - **Currently the primary program is the Single Family Regional Loan Fund**
- **VHDA offers a free homeownership education program to provide first-time homebuyers with the opportunity to become familiar with the home-buying process and homeownership responsibilities**

# **Loan Products Do Not Provide Significantly Lower Interest Rate**

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72

- Interest rate for standard insured loan is only one-half percent below private market rate for a 30-year, fixed rate loan
- Step rate loan interest rate is discounted for the first 2 years of the loan, but is set at the 30-year, fixed interest rate for the remaining 28 years of the loan
- First and second mortgages provided through the FHA Plus program are at the 30-year, fixed rate for 30 years



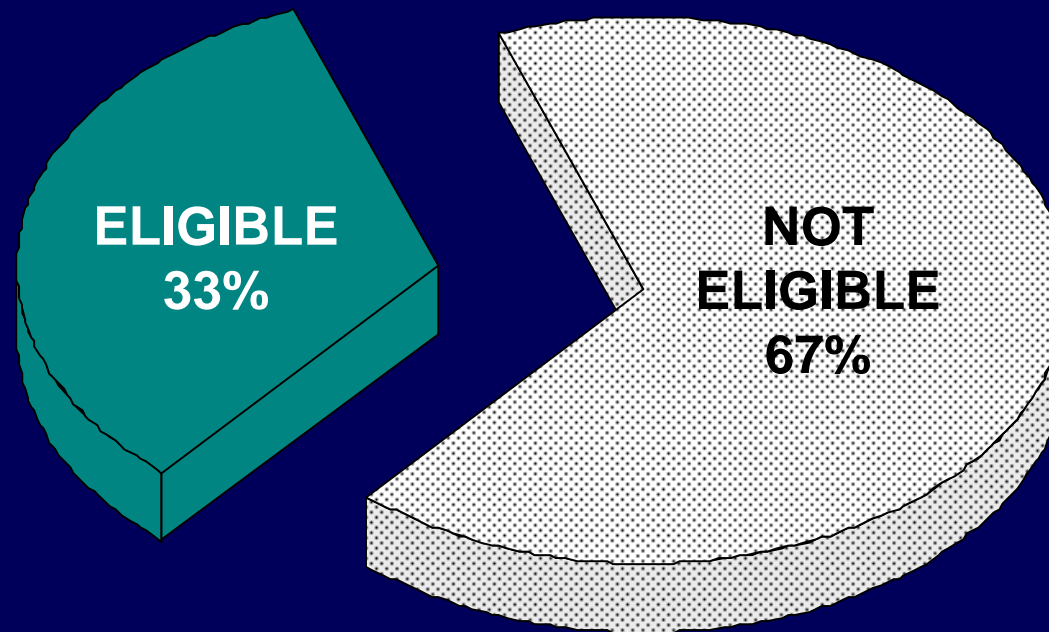
# Current Interest Rates May Not Be As Low As Anticipated By Statute

73

- Section 36-55.33:1(A)(3) of the *Code of Virginia* states: “...interest rates shall be established by HDA in its sole discretion at the lowest level consistent with HDA’s cost of operation and its responsibilities to the holders of its bonds, bond anticipation notes and other obligations”
- Current practice of setting interest rates at only one-half percent below the market rate results in interest rates that may not be as low as anticipated by the *Code*

# One-Third of Borrowers Would Have Been Eligible for Private Market Loans

74



# VHDA Focuses on Loan Production and Profitability

75

- VHDA's strategic plan lists the following as the authority's first two strengths:
  - Over the last five years, the authority has "achieved record levels of single-family...loan production"
  - VHDA has "regularly been first or second among state HFA's in our level of single family...lending"
- VHDA needs to balance its current focus on loan production and profitability with greater financial assistance to borrowers

# **Single Family Program Should Provide Greater Assistance to Low Income Households**

76

- **Low income households with incomes between 60 and 80 percent of area median family income have the same loans available to them as moderate income households with incomes as high as 110 percent of area median family income**
- **Low income households have greater need for assistance, but VHDA does not have a loan product that provides significant assistance to this income group, except through the Virginia Housing Fund**

# Recommendations

77

- **The Virginia Housing Development Authority should conduct a review of the single family loan program to assess how the program can be improved to better meet VHDA's mission. VHDA should present its findings to the Board of Commissioners with recommended modifications.**
- **The Virginia Housing Development Authority should develop one or more loan products targeted to low income households that provide substantially more assistance than financing provided by the private market.**

# Presentation Outline

78

- ☐ Introduction and Summary of Findings
- ☐ Background
- ☐ The Section 8 Program
- ☐ The Multifamily Loan Program
- ☐ The Single Family Loan Program
- ☒ **VHDA's Management and Mission**

# VHDA Appears Well Managed

79

- VHDA has a strong financial reputation and receives impressive ratings from bond rating agencies
- VHDA has a professional and competent staff
- VHDA's financing programs are generally well-managed
- VHDA generally has experienced low turnover in staff

# Executive Salary Structure Based on Private Market Comparisons

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80

- There are no restrictions or limits on VHDA salaries as long as they are approved by the Board of Commissioners
- VHDA almost exclusively uses private market comparisons to establish executive salaries, and over the last several years, the authority's goal has been to raise executive salaries to at least 97 percent of comparable private market salaries
- Overall, VHDA staff salaries appear in line with salaries for comparable positions in other agencies



# VHDA Executive Salary Ranges for FY 2000-01 Are Competitive with Private Market

81

<u>Position</u>	<u>Current</u>	<u>Salary Range</u>		<u>Market Median Base Salary</u>
		<u>Minimum</u>	<u>Maximum</u>	
Executive Director	\$176,868	\$165,000	\$275,000	\$221,700
Deputy Executive Director	171,876	127,500	212,500	173,400
Director of Finance	185,273	120,000	200,000	161,100
General Counsel	159,366	105,000	175,000	140,600
Director of Admin Services	118,209	97,500	162,000	129,000
Director of Multifamily	147,812	97,500	162,000	131,800
Director of Single Family	138,340	97,500	162,000	131,800

# **Executive Salaries Are Comparatively High**

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82

- **Executive salaries are higher than other state housing finance agencies**
- **Executive salaries are higher than other independent agencies in Virginia**
- **VHDA executive level turnover is extremely low**

# VHDA Has Financial Strength

83

- Over the last three years, VHDA has generated on average \$88 million in excess revenue annually
- The authority's fund balance as of December 31, 1999 exceeded the minimum threshold for Standard & Poor's top tier rating by \$737 million
- VHDA's AA+ bond rating is highest rating given by Standard & Poor's to housing finance agencies, and only one other such agency has a AA+ rating. Most other housing finance agencies with top tier status have general obligation ratings of AA or AA-

# Virginia Housing Fund Was Established to Serve Lower Income Households

84

- VHF targets households at lower income levels that are not being served by VHDA's traditional programs
- Portion of excess funds raised from the profits of VHDA's traditional single and multifamily programs is transferred to the authority's general fund and then to the VHF to provide lower interest rate loans for single family homes and multifamily projects
- Since VHF was created 13 years ago, \$235 million has been loaned from the fund

# **VHDA Consultant Recommends How Much Can Be Contributed to VHF**

85

- **VHDA periodically hires a consultant to evaluate how much can be contributed to the VHF**
- **CFX Inc. conducted the most recent analysis in 1996, and concluded that VHDA could contribute between \$18 and \$20 million in new money to the VHF annually for five years without having “an undue adverse impact” on the authority’s financial strength**
- **JLARC staff retained a financial consultant to review the CFX report as well as assess how much VHDA could contribute annually to the VHF**

# CFX Analysis Was Incomplete and Included Questionable Assumptions

86

- Through its top tier analysis CFX projected that VHDA would have \$600 million (\$230 million of which was liquid) in excess of the minimum for top tier status, but chose not to complete this analysis to determine how much VHDA could contribute to the VHF
- Instead, CFX performed a more restrictive capital valuation analysis to evaluate how much VHDA could contribute to the VHF

# **CFX Analysis Was Incomplete and Included Questionable Assumptions**

## **(continued)**

87

- According to JLARC's consultant, the capital valuation analysis was "too mechanical" because it focused exclusively on too narrow a range of numbers and did not consider all of the appropriate factors
- Consultant also found that some assumptions were overly conservative or unrealistic:
  - Assumption that operating expenses would grow by one percent into perpetuity (65 years) under a capital valuation scenario in which all assets would be liquidated after 30 years was unrealistic
  - Assumption that contributions to the VHF would not be recoverable was unrealistic

# **VHDA Could Allocate Significantly More Funding to the VHF**

88

- Applying the CFX analysis with more realistic assumptions shows that VHDA could have allocated \$34.4 million annually to the VHF instead of \$20 million
- VHDA regulations require interest on VHF loans to remain in VHF, but VHDA instead allocates interest to the VHDA general fund
- VHDA is effectively contributing only \$12 million in new funds to the VHF annually
  - CFX's recommended annual contribution to the VHF was separate from any calculation of interest, which CFX expected would remain in the Fund. However, VHDA annually has included its interest contribution (\$8 million in 1999) as part of its allocation to the Fund



# **VHDA Needs to More Effectively Analyze How Financial Strength Can Be Utilized**

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89

- **There appears to be strong demand and need for low-cost financing of both multifamily and single family housing**
- **VHDA needs to reevaluate the approach it currently uses to assess how much can be contributed to the VHF and more effectively analyze how much can be allocated considering all pertinent factors**

# Recommendations

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90

- **The Virginia Housing Development Authority should review its current financial position and contribute the maximum amount feasible annually to the Virginia Housing Fund.**
- **The Virginia Housing Development Authority should leave all interest generated from Virginia Housing Fund investments and mortgages in the Virginia Housing Fund.**

# Recommendations

## (continued)

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91

- **The Virginia Housing Development Authority should modify its current process for determining the amount of funds that can be allocated to the Virginia Housing Fund to include all relevant factors that will help VHDA to more accurately determine how much can be contributed annually. Each time VHDA conducts an assessment of how much it can contribute to the Virginia Housing Fund, the authority should report the results to the Virginia Housing Study Commission.**

# **Accomplishment of Public Mission Needs to Be Assessed**

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92

- **VHDA needs to examine its current philosophy and programs to assess how it can better utilize its impressive resources to more effectively fulfill its statutory mission to help provide safe and sanitary housing to those otherwise unable to afford it through its multifamily and single family programs as well as through the VHF**
- **VHDA needs to balance its emphasis on financial strength with the quality of the assistance provided by its loan products**

# VHDA Should Do More to Meet Its Public Mission

93

## ■ VHDA needs to:

- More fully utilize its financial strength to meet its mission
- Provide more assistance to low income households who would not otherwise be able to afford a home
- Conduct a needs analysis and encourage more affordable rents
- Fully utilize Section 8 funds

# Increased Accountability and Oversight

94

- **VHDA should have increased accountability to the General Assembly:**
  - **The General Assembly may wish to exercise periodic oversight of the financial position of VHDA to determine whether the authority has excess financial strength that could be utilized to provide greater assistance in the furtherance of the authority's mission**
  - **The General Assembly may also wish to exercise oversight of utilization of Section 8 funds**

# Recommendation

95

- **The General Assembly may wish to consider whether the Virginia Housing Study Commission should play a more active role in oversight of the Virginia Housing Development Authority in its financing of housing programs. The Virginia Housing Study Commission may also wish to conduct oversight of the Section 8 program in its oversight of VHDA.**

